Scottish Enterprise

Interim Audit Report 2016/17
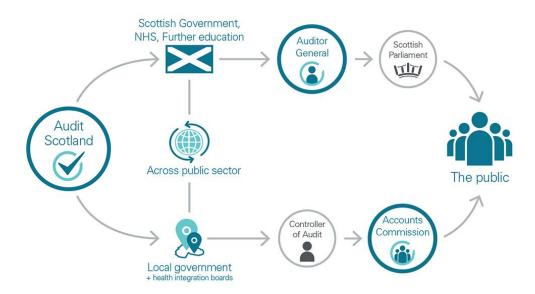
Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Scottish Enterprise. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We have placed reliance on internal audit's work, where appropriate. We will use the results of this testing to determine our approach during the 2016/17 financial statements' audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that Scottish Enterprise:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements

- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption

- complies with established policies, procedures, laws and regulations.

3. As part of our responsibilities under the Code of Audit Practice (2016), and as outlined in our annual audit plan (submitted in December 2016), we are required to undertake wider dimension work across four audit dimensions: financial management, financial sustainability, governance and transparency and value for money.

4. Our work is progressing in these areas, which includes a review of Scottish Enterprise's arrangements for EU funding and a follow-up of our 2010 Role of Boards Report, taking account of the on-going Scottish Government Review of Enterprise & Skills. We will report our findings from our wider dimension work in our Annual Audit Report, which we will present to the June 2017 Audit Committee.

Conclusion

5. We identified a small number of control weaknesses as summarised in Exhibit 1 below. We have developed further audit procedures to gain assurance, where appropriate, in response to these findings as outlined in Exhibit 1 below. This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

6. Based on our review and testing of selected financial systems, our conclusion is that Scottish Enterprise has effective systems of internal control subject to the matters raised below.

7. The matters raised in this report should be considered as part of the Accountable Officer's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.

Work summary

8. Interim audit testing was undertaken during January/February 2017. We performed initial systems reviews and walk through testing of the key controls

identified for the main financial systems. Our testing covered the key controls in a number of areas including:

- bank reconciliations

- payroll validation and exception reporting

- authorisation of journals

- IT access controls

- feeder system reconciliations

- change of supplier bank details

- creation of investment funds and monitoring of investments against targets

- budget monitoring and control, and

- controls for preventing and detecting fraud in areas such as staff expenses, grants and other claims.

9. We also undertook early substantive testing of income, expenditure (including staff expenses) and payroll costs.

10. In accordance with ISA 330: the auditor's response to assessed risk, our audit judgements are based on current year testing of controls and, where appropriate, prior year results. Our risk-based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified.

11. As outlined in our Annual Audit Plan, we sought to place reliance on the work of internal audit. We reviewed internal audit's work on Key Project Controls, Investments, Finance Centre, Treasury Management and Salaries & Benefits. We were able to place appropriate reliance on aspects of internal audit's work to support our audit conclusions.

12. The contents of this report have been discussed with management to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

13. The key control and wider dimension risks identified during the interim audit are detailed in Exhibit 1. As outlined below, these findings will inform our approach to the financial statements audit where relevant.

14. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Scottish Enterprise.

Exhibit 1
Key findings and action plan 2016/17

Issue identified	Management response Responsible officer and target date	Additional audit procedures
Audit findings		

Feeder System Reconciliations: Purchase Order System Upload to General Ledger Invoices are approved for payment on the Purchase Order (POP) system. A report of authorised payments is then produced from POP. This is uploaded in batch to the SUN general ledger on a daily basis. The same staff member undertakes this entire process. While we are aware of a range of controls already in place across the invoice raising and payment processes, we have however noted the following: • due to the editable format of this batch report, the officer processing the payment has the ability to amend/add/delete payment lines (but cannot amend supplier bank details) • there is no segregation of duties • there is no management oversight. **There is a risk that a payment batch is altered so that erroneous payments are made**.	Finance does not consider that this is a serious control weakness. We consider that there are a number of controls in place covering the payment run to verify expenditure to approved invoices that mitigates this risk. Additionally, Finance has now included a management oversight check as part of the import process. This check involves a second officer reviewing that the total value of the import agrees to the POP authorised invoice report before the file is posted to the main SUN ledger. This should address concerns regarding management oversight and segregation of duties. **Finance Centre Manager** **March 2017**	We substantively tested a sample of 20 daily reconciliations to confirm that the total value of payments uploaded to the ledger agreed to the POP system. No issues were identified.
Authorisation: Expenses Checking A manual system for claiming expenses was introduced in Spring 2016. These claims are not subject to any checks prior to payment. However, SE finance staff undertake weekly checks on all claims in excess of £500 and 10% of all other claims. Our audit identified that no checks had been undertaken since week commencing 10 October 2016. This means that 15 weeks' worth of expenses have been paid but not subject to any verification processes. **There is a risk that payments are made in respect of fraudulent or erroneous claims.**	Since the introduction of the manual system in 2016, there have been increased staff checks, which have increased staff workload. However since the audit visit, we can confirm that: • we have completed 10% and over £500 checks up to 16th December 2016 • we have approximately 5 weeks still to catch up with to take us up to w/e 27th January 2017, for both 10% and the over £500 checks • from week ending 3rd February 2017 all expense claims over £500 have been checked but we still have to go back and do the 10% check on these	We shall review progress on the verification of claims. We shall substantively test a sample of expense claims as part of our year-end audit.

Issue identified	Management response Responsible officer and target date	Additional audit procedures
	weeks. Action will be taken to ensure that checks are brought up to date by the end of the financial year. **Finance Centre Manager** **March 2017**	
Payroll Validation Best practice suggests that employee validation checks should be undertaken. This is a key control to ensure that all staff on the payroll exist and that there are no "ghost" employees being paid. We are aware that management currently have a number of processes in place to monitor movements in staff numbers. This, together with the close monitoring of staff budgets, provides some assurance for management. However, these do not provide assurance over the existence of staff on the payroll. We have therefore recommended that a check of the existence of staff on the payroll is undertaken to address the risk of 'ghost' employees being paid.	No new employees are added to payroll or the HR system until they have completed the new start form. This is normally done in person and witnessed by HR during the welcome day. New starts are also verified against the recruitment paperwork and the offer letter. A system workflow is also generated by the HR system which notifies the people manager of a new start in their area. In addition to the processes noted above, HR meet with departmental management teams on a monthly basis and staff movements including vacancies and turnover are discussed. We shall review payroll validation processes when the new HR system is implemented. **HR Manager** **September 2017**	We substantively tested a sample of 10 employees to ensure existence. No issues were identified.

Wider dimension issues and risks

Staff resources There are currently a number of absences within the Customer and Delivery Team in HR and Finance. These affect key positions, including the Payroll / HR Business Partner and one of the three financial accountants responsible for preparing the financial statements. We are also aware that a recruitment freeze is ongoing. There are additional work pressures which could impact on staff workload. These include systems' developments on the new payroll system and an upgrade to the financial ledger.	Within Finance the long term sick leave absences that created workload pressures have been addressed via the recruitment of temporary staff. These absences and the need to redeploy staff to cover more critical control activities contributed to delays in completing expenses checking and completing payroll reconciliations. In relation to the preparation of the financial statements, we believe the experienced staff	None planned

Issue identified	Management response Responsible officer and target date	Additional audit procedures
We found examples of these competing pressures during our interim testing (delays in completing payroll reconciliations and expenses checking). There is a risk that the level of absences could impact on the control environment generally and the preparation of the annual accounts.	in the team will deliver to the agreed accounts timetable. Other qualified staff will be deployed to assist if any unexpected issues emerge. The respective management teams constantly review staff resources. **Finance Director/Head of Reward & Customer Delivery** **Ongoing**	

Source: Audit Scotland

15. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Scottish Enterprise
Interim Audit Report 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500
or **info@audit-scotland.gov.uk**

For the latest news, reports and updates, follow us on:

AS.1.1